



# City of Glens Falls

## Financial Condition

### Report of Examination

Period Covered:

January 1, 2010 — December 31, 2012

2013M-150



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>INTRODUCTION</b>	3
Background	3
Objective	3
Scope and Methodology	4
Comments of Local Officials and Corrective Action	4
<b>FINANCIAL CONDITION</b>	5
Recommendations	9
<b>APPENDIX A</b> Response From Local Officials	10
<b>APPENDIX B</b> Audit Methodology and Standards	12
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	13
<b>APPENDIX D</b> Local Regional Office Listing	14

# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

August 2013

Dear City Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and City Council governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of City of Glens Falls, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The City of Glens Falls (City) is located in Warren County and has approximately 14,700 residents. The City is governed by the City Council (Council) which comprises an elected Mayor and six elected councilpersons: five representing each of the City wards and one councilman-at-large. The Council is responsible for the general management and control of the City's financial affairs. This responsibility includes exercising adequate oversight and establishing appropriate policies to govern the City's financial operations. The City Controller is the chief fiscal officer and is responsible for, among other things, maintaining accounting records and providing financial reports to the Council.

In addition to the Council, the City has a Water and Sewer Commission (Commission), which is responsible for the general oversight of water and sewer operations. The Commission has the authority to set water and sewer rates, prepare the annual operating budgets, and enter into contracts on behalf of the water and sewer departments, although all resolutions are subject to the Council's final approval.

In April 2008, the City entered into a contract with a private company (Company) for the management of the City's Civic Center. The Company is responsible for performing management services and furnishing the systems and materials needed to operate the Civic Center and supervising, managing and maintaining the Civic Center in the most efficient manner consistent with the operations of other similar facilities.

The City provides various services to its residents, including street maintenance and improvements, snow removal, public improvements, recreation and cultural activities, public safety through paid fire and police departments, water, sewer, and general government support. The City's budgeted general fund appropriations for the 2013 fiscal year were approximately \$16.7 million, which were funded primarily by real property taxes, sales taxes, and State aid. The City's budgeted water and sewer fund appropriations for the 2013 fiscal year were approximately \$3.2 million and \$5.6 million respectively, which were funded primarily by user fees.

## Objective

The objective of our audit was to review the City's financial operations. Our audit addressed the following related question:

- Does the Council adopt realistic budgets that are structurally balanced, routinely monitor financial operations, and take appropriate actions to maintain the City's financial stability?

**Scope and  
Methodology**

We examined the City’s financial records and reports for the period January 1, 2010, to December 31, 2012.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of  
Local Officials and  
Corrective Action**

The results of our audit and recommendations have been discussed with City officials and their comments, which appear in Appendix A, have been considered in preparing this report. City officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Council has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Council to make this plan available for public review in the City Clerk’s office.

## Financial Condition

An essential component of the Council's duties and responsibilities is to make sound financial decisions that are in the best interests of the City and the taxpayers that fund its operations. The Council is responsible for ensuring that resources are available to fund the cost of City operations. This responsibility requires Council members to balance the level of services desired and expected by City residents with the ability and willingness of the residents to pay for such services. Therefore, it is essential that the Council adopt realistic, structurally balanced budgets for all of the City's operating funds that provide recurring revenues to finance recurring expenditures. Also, effective management includes monitoring budgets during the course of the year and making any budgetary amendments that become necessary due to revenue shortfalls or from actual costs exceeding the appropriations provided for in the adopted budgets.

The Council adopts realistic budgets and, along with the Mayor and City Controller, continually monitors the budgets throughout the year and will initiate and approve any necessary budget amendments. Although we do not consider the City to be in fiscal stress at this time, the low levels of unexpended surplus funds<sup>1</sup> in the general fund and declining balances in the water and sewer funds make the City at risk of becoming susceptible to fiscal stress if the declining trends are allowed to continue. It is important for City officials to closely monitor the financial status of these funds to ensure that the downward trends of recent years do not continue, and they must be prepared to take immediate corrective action in the event of such an occurrence.

General Fund – Although the level of unexpended surplus funds decreased between the end of the 2010 and 2011 fiscal years, the amount increased in 2012 and was approximately \$165,000 more at the end of the 2012 fiscal year than it was at the end of 2010. We examined the annual budgets and corresponding results of operations for 2010 through 2012 and found that overall the City

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<sup>1</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

adopted structurally balanced budgets. The general fund did incur an operating deficit in 2011 totaling \$262,846; however, the amount of the deficit is not material in comparison to the approximate \$16 million budgeted appropriations for 2011.

<b>Description</b>	<b>2010</b>	<b>2011</b>	<b>2012 <sup>(a)</sup></b>
Beginning Fund Balance	\$690,983	\$958,721	\$695,875
Operating Surplus/(Deficit)	\$267,738	(\$262,846)	\$257,972
Ending Fund Balance	\$958,721	\$695,875	\$953,847
Less: Restricted Fund Balance	\$539,138	\$477,801	\$369,334
Less: Appropriated Unexpended Surplus	\$0	\$55,774	\$0
Unexpended Surplus Funds	\$419,583	\$162,300	\$584,513
<sup>(a)</sup> Non-audited figures			

Even though the City has adopted general fund budgets that maintained unexpended surplus funds from the end of the 2010 to 2012 fiscal years, the low level of surplus funds leaves the general fund at risk. As such, the general fund could encounter financial difficulties should unanticipated costs or revenue shortfalls arise and a sufficient level of fund balance is unavailable to finance operations. This ultimately could cause the City to either increase taxes and/or reduce services.

We reviewed the 2013 adopted general fund budget for amounts that exceeded \$100,000 for estimated revenues and \$75,000 for appropriations. We found the estimated revenues and appropriations to be reasonable based on historical information and recent employee contracts.

Another factor that could impact the general fund’s financial stability is the fund’s contribution to support the Civic Center (Center). The general fund contributes approximately \$550,000 each year to the Center to help with operating costs. This contribution is generally made to close the operating deficit that is incurred as a result of the Center not generating enough revenue to cover annual costs. The Center generates revenue by hosting programs and events<sup>2</sup> to cover the facility’s operating costs. Because of the low level of unexpended surplus fund balance in the general fund, it is important for the Center to continue attracting events and generating revenue so that an increased contribution from the general fund is not necessary. Such an increase would cause additional financial concerns for the general fund.

<sup>2</sup> The Center hosts concerts and sporting events and rents out its banquet hall.

Water Fund – From the end of 2010 to the end of 2012, the total amount of fund balance has increased slightly, from \$1.8 million to \$2.1 million. However, the composition of the fund balance has changed substantially, with a much larger amount of fund balance being restricted and a much smaller amount of the balance being unexpended surplus funds. When adopting the 2010 and 2012 water fund budgets, the City appropriated fund balance to finance operations. When fund balance is appropriated to finance operations, officials “plan” on incurring an operating deficit, as the amount of estimated revenues are less than appropriations with the difference being funded by a portion of fund balance. As a result, the water fund experienced operating deficits in 2010 and 2012. In 2011 the water fund had a \$401,000 operating surplus, largely due to an early redemption of outstanding water debt that saved approximately \$300,000 in serial bond interest costs that was included as an appropriation in the budget.

The Council has continually funded a debt reserve that increased from \$1 million at December 31, 2010, to approximately \$1.6 million as of December 31, 2012, which can be used to fund debt payments in future budgets. For 2012, debt payments accounted for approximately 55 percent of total water fund expenditures. While the increasing amount reserved for debt will help to finance debt-related costs in the future, the City should ensure it does not completely deplete the balance of its unexpended surplus funds and limit its options to finance unanticipated costs or revenue shortfalls that may arise in the future, thus would cause the City to increase water rates and/or reduce services.

<b>Description</b>	<b>2010</b>	<b>2011</b>	<b>2012<sup>(a)</sup></b>
Beginning Fund Balance	\$2,132,695	\$1,834,608	\$2,235,595
Operating Surplus/(Deficit)	(\$298,087)	\$400,987	(\$138,380)
Ending Fund Balance	\$1,834,608	\$2,235,595	\$2,097,215
Less: Restricted Fund Balance	\$1,005,293	\$1,414,079	\$1,726,341
Less: Appropriated Unexpended Surplus	\$0	\$300,000	\$264,000
Unexpended Surplus Funds	\$829,315	\$521,516	\$106,874
<sup>(a)</sup> Non-audited figures			

We reviewed the 2013 water fund budget for amounts that exceeded \$100,000 for estimated revenues and \$75,000 for appropriations and found them to be reasonable. However, for 2013 the City appropriated \$263,998 of surplus fund balance to finance operations, leaving the fund with an unexpended surplus fund balance of approximately



\$107,000, which is substantially less than the amount of unexpended surplus funds from previous years.

Sewer Fund – Although declining, the sewer fund has maintained a healthy level of unexpended surplus funds when compared to the annual cost of operations. The annual appropriations for the sewer fund averaged approximately \$5.6 million during our audit period, while the balance of unexpended surplus funds at the end of 2010, 2011, and 2012 totaled \$2.7 million, \$2.1 million, and \$1.3 million, respectively. During 2010, the City received Federal aid from a grant, totaling approximately \$900,000, that was not included in the budget and resulted in a large operating surplus.

Conversely, for 2011 the sewer fund incurred a significant operating deficit. The operating deficit resulted from a combination of budgetary issues:

- The adopted budget included an estimate for grant proceeds of \$608,288. However, these proceeds were for a capital project and should not have been included in the sewer budget.
- The budget also over-estimated revenues related to unmetered sewer charges by \$44,647, services to other governments by \$42,751, and interfund transfers by \$25,000.
- The expenditures for debt payments were under-budgeted by \$71,099.

Although the Council amended the 2011 budget during the year to use \$316,549 of fund balance to finance sewer operations, the sewer fund ended the year with an operating deficit significantly more than the amount of the “planned” deficit; the actual deficit totaled \$959,817. In 2012, the sewer fund experienced an operating deficit of \$592,210, of which \$350,000 was planned as part of the adopted budget.

<b>Description</b>	<b>2010</b>	<b>2011</b>	<b>2012<sup>(a)</sup></b>
Beginning Fund Balance	\$2,638,309	\$3,454,020	\$2,494,203
Operating Surplus/(Deficit)	\$815,711	(\$959,817)	(\$592,210)
Ending Fund Balance	\$3,454,020	\$2,494,203	\$1,901,993
Less: Restricted Fund Balance	\$707,631	\$369	\$200,243
Less: Appropriated Unexpended Surplus	\$0	\$350,000	\$422,299
Unexpended Surplus Funds	\$2,746,389	\$2,143,834	\$1,279,451
<sup>(a)</sup> Non-audited figures			

We reviewed the 2013 sewer fund budget for amounts that exceeded \$100,000 for estimated revenues and \$75,000 for appropriations and found them to be reasonable compared to historical data. In addition, the City appropriated \$422,299 of unexpended surplus fund balance to help finance 2013 operations. As a result of the Council's budget decisions and related annual results of operations, the sewer fund's unexpended surplus funds decreased by more than \$1.4 million over the past three years. Even after this decrease the sewer fund had sufficient unexpended surplus funds as of the end of 2012. However, if the Council continues to adopt budgets that use the same level of fund balance as in 2013, the unexpended surplus funds will be depleted within a few years. As such, the sewer fund could encounter financial difficulties should unanticipated costs or revenue shortfalls arise and the City would no longer be able to use fund balance to finance operations, which would cause the City to increase sewer rates and/or reduce services.

City officials are aware of the low level of fund balance in the general fund and the declining balances in the water and sewer funds. The budget is continually monitored throughout the year and budget amendments are made to address the changing needs of each fund. Officials are also working along with a management company to ensure the Center is an active venue that attracts visitors to the City.

## **Recommendations**

1. The Council should closely monitor the level of unexpended surplus funds in the general fund and continue to ensure that budgets are structurally balanced without using unexpended surplus funds.
2. The Council should continue to closely monitor the Center's operations to ensure it continues to generate sufficient revenues without additional contributions from the general fund.
3. The Council should address the declining fund balances in both the water and sewer funds and adopt future budgets with less dependence on the use of unexpended surplus funds.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

The local officials' response to this audit can be found on the following page.



July 23, 2013

[REDACTED]  
[REDACTED]

NYS Office of the State Comptroller  
Division of Local Government and School Accountability  
One Broad Street Plaza  
Glens Falls, NY 12801

Dear [REDACTED]

This letter is in reference to the Office of the State Comptroller's draft audit report of the Financial Condition of the City of Glens Falls. Please consider this our official "Audit Response" to use in your preliminary draft findings and recommendations. The recommendation to closely monitor the Fund balance for the General Fund as well as the Water and Sewer Fund is one of the priorities throughout the year. The City intends to continue with cost-control measures such as controlling overtime costs and deferring capital purchase plans. The City of Glens Falls will continue to adopt realistic budgets based on historical information and will make it a goal to balance the budgets without using Fund balance. In addition we will keep monitoring the operations of the Civic Center to ensure no additional funding from the General Fund is required..

Thank you and your staff for your professionalism in completing this audit.

Sincerely,

John A. Diamond  
Mayor

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate City officials and employees, tested selected records, and examined pertinent documents for the period January 1, 2010, through December 31, 2012. Our procedures included the following:

- We obtained an understanding of the internal controls related to the City's budget development and monitoring process.
- We reviewed the Council meetings minutes from January 2008 through December 2012 to obtain information related the Council's financial oversight.
- We analyzed revenues and expenditure trends and the changes in fund balance of the general, water, and sewer funds and the Center for the 2010 through 2011 years, as reported in the City's audited financial statements.
- We analyzed revenues and expenditure trends and the changes in fund balance of the general, water, and sewer funds and the Center for the 2012 year, as reported in the City's budget-to-actual report.
- We compared the adopted 2013 budget amounts to the actual results of the general, water, and sewer funds for 2012. We selected accounts that had budgeted estimated revenues of \$100,000 and budgeted appropriations of \$75,000.
- We compared the adopted 2010, 2011, and 2012 budget amounts to the actual results of the general, water, and sewer funds in 2010, 2011, and 2012, respectively. For each year, we selected accounts that had budgeted estimated revenues of \$100,000 and budgeted appropriations of \$75,000.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## APPENDIX C

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**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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